6/31

Office - Supreme Court, U. S.
FILED
FEB 2 1956
HAROLD B. WILLEY, Clerk

In the Supreme Court of the United States

OCTOBER TERM, 1955.

No. 558

THE MAC INVESTMENT COMPANY,
Appellant,

vs.

THE UNITED STATES OF AMERICA,
Appellee.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF MICHIGAN,
SOUTHERN DIVISION

BRIEF OF APPELLANT IN OPPOSITION TO MOTION TO AFFIRM

ROCKWELL T. GUST,
1881 National Bank Building,
Detroit 26, Michigan,
Counsel for Appellant.

Of Counsel:

BUTZEL, EAMAN, LONG, GUST & KENNEDY,
JAMES D. RITCHIE,
1881 National Bank Building,
Detroit 26, Michigan.

A. H. BRENAN,
BRUCE GRISWOLD,
1717 Union Commerce Building,
Cleveland 14, Ohio.

JAMES T. HOFFMANN,
870 Union Commerce Building,
Cleveland 14, Ohio.

THE GATES LEGAL PUBLISHING CO., CLEVELAND, OHIO—MAIN 1-8847

TABLE OF CONTENTS.

BRIEF OF APPELLANT IN OPPOSITION TO MOTION TO AFFIRM 1

Conclusion 10

TABLE OF CASES.

Addyston Pipe & Steel Co. v. United States, 175 U. S. 211 4

Binderup v. Pathe Exchange, Inc., 263 U. S. 291 5

Cutter Laboratories v. Lyophile-Cryochem, 179 F. (2d) 80 ..... 6, 7, 8

Eastern States Retail Lumber Dealers' Ass'n. v. United States, 234 U. S. 600 5

Timken Roller Bearing Co. v. United States, 341 U. S. 593 4

Transparent-Wrap Machine Corp. v. Stokes & Smith Co., 329 U. S. 637 ..... 6, 7

United States v. American Tobacco Co., 221 U. S. 106 4

United States v. Borden Company, 347 U. S. 514 8

United States v. General Dyestuffs Corp., 57 F. Supp. 642 5

United States v. Griffith, 334 U. S. 100 5

United States v. Hartford-Empire Co., 46 F. Supp. 541 (N. D. Ohio), affirmed 323 U. S. 386 5

United States v. Line Material Company, 333 U. S. 287 6

United States v. National Lead Co., 63 F. Supp. 513 (S. D. N. Y.), affirmed 332 U. S. 319 5

In the Supreme Court of the United States

OCTOBER TERM, 1955.

No. 558

THE MAC INVESTMENT COMPANY,

Appellant,

vs.

THE UNITED STATES OF AMERICA,

Appellee.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF MICHIGAN,
SOUTHERN DIVISION

BRIEF OF APPELLANT IN OPPOSITION TO MOTION TO AFFIRM

Pursuant to Rule 16, Paragraph 3, appellant submits its Brief in opposition to the Motion to Affirm[1] filed by appellee.

The fundamental issue in the case is the validity of the provision in the API Agreement for the assignment of improvement patents and the granting of licenses thereunder to the parties. Appellee not only fails to refute that this presents a substantial question but obscures the issue by setting forth, in colorful language, a number of propositions which have no application here and serve no purpose except to divert attention from the real issue.

Appellee misstates our argument in stating (Motion 5) that we are contending that the API Agreement is a

[1] The Government's Motion to Affirm will be referred to as "Motion" and appellant's Jurisdictional Statement as "J. S."

"*mere* restatement of patent rights created by the outstanding individual licenses previously granted by DeVlieg." Moreover, the Government is mistaken in stating that we "ignore(s) certain basic facts" (Motion 5), namely, that the API Agreement is concerned not only with the inventions covered by the individual licenses but also with improvements thereon later developed by any of the parties. We, in fact, emphasized, as we do now, that the "validity of the API Agreement depends on the right of non-competing exclusive licensees of an inventor to agree that improvement inventions made by any of them during the life of the patent on the licensed invention will be made available to the other licensees to the same extent as they are licensed to use the original invention" (J. S. 9). We then contended that "*in other respects* the API Agreement is nothing more than a clarifying restatement of patent rights including those created by the outstanding licenses previously granted by DeVlieg to the respective parties to the API Agreement" (J. S. 9) (Emphasis added). In short, the only material difference between the rights of the parties under their individual licenses from DeVlieg and their rights under the API Agreement is that under the API Agreement each licensee was entitled to use not only those improvements made by DeVlieg or itself on the three original inventions but also those made by DeVlieg's other licensees. It is significant that appellee can point to no other important difference between the API Agreement and the individual licenses.

In an effort to show other differences between the individual licenses and the API Agreement, appellee seeks to convey the impression that the API Agreement was of unlimited duration and that it applied even to improvements made after the expiration of the three patents on the original inventions. (Motion 5, 6.) Appellee is clearly

mistaken. The API Agreement was definitely limited in duration and applied only to those improvements perfected during a limited period. *There was no obligation to assign improvements after the expiration of the patents on the three original inventions.* (Gov. Ex. 12, Article I.) Hence, all obligations to assign improvements ceased on January 28, 1953 when the last of the three original patents expired.

As stated above, the API Agreement provided that the parties would assign to API any improvements on the three original DeVlieg inventions which they might develop during the life of the patents on said inventions and that API would license the parties to use such improvements to the same extent that they were licensed by DeVlieg to use the original inventions. The Government's conclusion that such an arrangement "was an agreement not to compete, achieved through a division of exclusive fields of manufacture" (Motion 6) fails to square with the facts and completely distorts the provisions of the API Agreement.

Historically, and by virtue of the characteristics of the industry, De Vlieg's licensees were specialists manufacturing different types of machines. Counsel for appellee stated at the trial:

> "I think it is accurate to state that the industry is one of specialists; specialists in the sense that the different companies who are engaged in the trade for over a period of time become established in the manufacture of a particular type, or particular types of machines. * * *" (Transcript of testimony, p. 9.)

Although each of the licensees has always had strong and vigorous competition from other manufacturers of the particular type of machine it sold, each had for many years manufactured machines which did not compete with those of the other licensees. Counsel for appellee further stated at the trial:

> "* * * Now, because of the fact that these companies manufacture different types of machines, they are therefore non-competitive." (Transcript of testimony, p. 9.)

It was only because the parties were specialists manufacturing different and non-competing machines that it was possible for DeVlieg as inventor to grant each of them an exclusive license to use his inventions in its particular type of machines.

The earlier suit, Civil Action No. 6813 (J. S. 7, 8), filed by Lucas and API against DeVlieg was *not* brought, as the Government implies (Motion 7, 8), to prevent DeVlieg from manufacturing horizontal boring machines, but was brought to prevent him and his controlled companies from using *in* horizontal boring machines patent rights which he had sold to Lucas for a valuable consideration and from infringing patent rights owned by Lucas and having *no* connection whatsoever with API.

Throughout its motion, appellee uses phrases such as "prevention of competition," "exclusive fields of manufacture," "concert of action," and "concerted refusal to deal," apparently in an effort to suggest anti-trust violation and illegal action. These phrases have no application here.

An analysis of the cases relied on by appellee (Motion 6-8) clearly shows that they were decided on the basis of facts not present here, and that they are wholly irrelevant. *Timken Roller Bearing Co. v. United States,* 341 U. S. 593, 596-599, involved a contract which provided for the fixing of prices and restricting of imports and exports. *United States v. American Tobacco Co.,* 221 U. S. 106, 182, dealt with a combination whose purpose was to acquire dominion and control of interstate commerce in tobacco. In *Addyston Pipe & Steel Co. v. United States,* 175 U. S. 211, 241, there was a combination of the principal com-

panies engaged in the manufacture of pipe to provide for collusive bidding and the pooling and division of profits on sales in certain territories. *United States v. National Lead Co.*, 63 F. Supp. 513 (S. D. N. Y.), affirmed 332 U. S. 319, was concerned with a combination of companies dominating an industry and dividing the world into exclusive trading areas for the purpose of suppression of competition. *United States v. Hartford-Empire Co.*, 46 F. Supp. 541 (N. D. Ohio), affirmed 323 U. S. 386, struck down a combination which dominated the entire glass industry. In *United States v. Griffith*, 334 U. S. 100, 107, monopoly power obtained by an illegal combination of the bargaining power of several affiliated companies was used to gain a competitive advantage over a competitor or destroy him. In *United States v. General Dyestuffs Corp.*, 57 F. Supp. 642, 648, two of the largest manufacturers of dyestuffs were accused of agreeing not to compete with one another. In *Binderup v. Pathe Exchange, Inc.*, 263 U. S. 291, and *Eastern States Retail Lumber Dealers' Ass'n. v. United States*, 234 U. S. 600, the defendants, as competing sellers, combined in a refusal to sell to certain buyers. Obviously none of these cases involved merely an agreement such as the API Agreement concerned only with the exchange of improvement patent rights among non-competing licensees of an individual inventor.

"Concerted refusal to deal," referred to by appellee (Motion 8), has no relevancy to this case. DeVlieg was granted a patent monopoly by the United States which made it unlawful for others to use his invention without his consent. He carved up his monopoly and transferred parts of it to his licensees by granting to them the exclusive right to use his inventions in their respective types of machines. Thereafter, it was unlawful for anyone else, including DeVlieg, to use the inventions in any of those

types of machines without the consent of the particular licensee who had purchased the exclusive right to use the inventions in that particular type of machine. "Any patent owner who grants an exclusive license * * * cuts himself off from practicing the art claimed in the patent until the patent has expired." *Cutter Laboratories v. Lyophile-Cryochem,* 179 F. (2d) 80, 93. Any limitations, therefore, upon the use of the inventions involved in this case did not result from a "concerted refusal to deal" or by "veto" but rather from the legitimate exercise of rights under the patent laws.

As stated above, the basic issue here is the validity of the provisions in the API Agreement requiring the assignment of future improvement patents and the licensing of the parties thereunder. This cross-licensing of improvements was essential in order to secure the maximum benefits for both the licensees and the public from both the original inventions and the improvements. As this Court said in regard to a similar situation where conflicting patent claims "made it impossible for any manufacturer to use both p[illegible]nts when later issued without some cross-licensing arrangement":

> "Only when both patents could be lawfully used by a single maker could the public or the patentees obtain the full benefit of the efficiency and economy of the inventions." *United States v. Line Material Company,* 333 U. S. 287, 291.

Appellee seeks to distinguish the present case from *Transparent-Wrap Machine Corp. v. Stokes & Smith Co.,* 329 U. S. 637, on the ground that "*The Transparent-Wrap* case involved the validity of a license agreement between a single licensor and a single licensee, which obligated the licensee to assign improvement patents to the licensor. The instant case, on the other hand, involves the validity of

agreement among patentees to restrict or eliminate competition." (Motion 9). Such a statement begs the question. In this case, as in the *Transwrap* case, there is a single patentee until a licensee develops an improvement invention. Thereafter, it is an agreement among patentees. The issue in both cases is substantially the same: does an agreement requiring an assignment of improvement patents restrict or eliminate competition? As this Court said in the *Transwrap* case, the agreement for the assignment of improvement patents does not create a monopoly or restraint.

> "It is, of course, true that the monopoly which the licensor obtains when he acquires the improvement patents extends beyond the term of his basic patent. But as we have said, that is not creating by agreement a monopoly which the law otherwise would not sanction. The grant of the improvement patent itself creates the monopoly. On the facts of the present case the effect on the public interest would seem to be the same whether the licensee or the licensor owns the improvement patents." (pp. 645, 646)

The cross-licensing provisions in the API Agreement constitute nothing more than a trading of patent rights. This Court further stated in *Transwrap*:

> "One who uses one patent to acquire another is not extending his patent monopoly to articles governed by the general law and as respects which neither monopolies nor restraints of trade are sanctioned. He is indeed using one legalized monopoly to acquire another legalized monopoly." (p. 644)

Appellee's summary of *Cutter Laboratories, supra,* omits facts which show the marked similarity of that case to the instant case. In that case Stokes Co. and Sharp & Dohme formed a separate company, Lyophile-Cryochem Corporation, to which the parties transferred the right to

grant licenses under all present and future patents in the freeze-dried drug field. The license back from Lyophile-Cryochem to Stokes was an *exclusive* license to use these patents in *its normal field of activity,* the manufacture of machinery. The appellant there advanced the same arguments and contentions used by the Government in the instant case. The Court nevertheless upheld the arrangement between Stokes and Sharp & Dohme and their jointly created company, Lyophile-Cryochem Corporation, saying: "Thus, the objections to the agreements must be narrowed down to the cross-licensing rights granted * * * It is consistent with the spirit, as well as the letter, of the patent laws that each of these two companies should arrange to use the other in order to reap the rewards to which it is entitled as patentee and yet which it is in no position to reap by itself." (Ibid., 93)

Appellant submits that the lower court's decision as to the validity of the API Agreement conflicts with the decisions and the principles in the *Cutter Laboratories* and *Transwrap* cases, *supra.* Neither the District Court nor the Government has cited a single case showing that such an agreement is invalid. Under these circumstances it is clear that a substantial question is presented.

A substantial question is also presented by Question 2, namely, the admissibility in anti-trust cases of testimony of a witness as to alleged conversations with persons who are deceased at the time of trial. The Government itself has previously recognized this as being an important question. See *United States v. Borden Company,* 347 U. S. 514, 516, 517, and footnotes.

Contrary to the Government's statement (Motion 10-11), the District Court's error on its ruling on this question would alone constitute grounds for reversal of a

part of the decision below. In the decision of the trial Court in this case there was a finding of the existence of a "general unwritten agreement not to compete in the manufacture of machine tools" among the defendants. This finding can be derived only from the testimony of the interested witness, DeVlieg, as to alleged conversations with deceased officers of certain of the defendants. If this testimony of DeVlieg, the only Government witness, is not admissible, as appellant contends, then there is no basis for this finding. Without this finding, one of the holdings of the trial Court is completely destroyed.

It is true that appellant also contends that *even if* DeVlieg's testimony is admissible, such testimony will not support the conclusion of the trial judge. (J. S. 16) The District Court's conclusion on this point is one of the errors discussed under Question 3 in appellant's Jurisdictional Statement. In that sense only, the case does not turn on the ruling on the legal issue presented by Question 2. (Motion 10-11) It will be unnecessary, however, for this Court to examine certain of the claimed errors under Question 3 in the event that appellant's position on Question 2 is sustained. Accordingly, it is submitted that Question 2 should be ruled on by this Court for it is a substantial question and relates to the determination of important issues in the case.

CONCLUSION.

Appellee has failed to show that the appeal presents no substantial question. There are, on the contrary, substantial and important questions presented which should be reviewed by this Court. Appellee's Motion to Affirm should therefore be denied and probable jurisdiction should be noted.

Respectfully submitted,

ROCKWELL T. GUST,
1881 National Bank Building,
Detroit 26, Michigan,
Counsel for Appellant.

Of Counsel:

BUTZEL, EAMAN, LONG, GUST & KENNEDY,
JAMES D. RITCHIE,
1881 National Bank Building,
Detroit 26, Michigan.

A. H. BRENAN,
BRUCE GRISWOLD,
1717 Union Commerce Building,
Cleveland 14, Ohio.

JAMES T. HOFFMANN,
870 Union Commerce Building,
Cleveland 14, Ohio.